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Overview of economic and social conditions in Africa, 2018

Note by the Secretary-General

The Secretary-General has the honour to transmit herewith an overview of recent economic and social developments in Africa for 2018.

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Overview of recent economic and social developments in Africa

[Original: Arabic, English and French]

Summary

Africa's economic growth performance modestly recovered in 2017 after experiencing its lowest levels in 2016 since the beginning of this century. It expanded due to the slight increase in commodity prices and improved domestic conditions supported by improved macroeconomic management. Growth in private consumption and increase in investments led the recovery, despite adverse weather conditions and fragile global economic conditions that affected some countries. Fiscal deficits declined due to fiscal consolidation, signifying continued commitment to sound macroeconomic management practices. However, relatively high fiscal deficits coupled with exchange rate depreciations have put pressure on rising public debt levels in some countries.

Monetary policies varied across African countries, as interest rates slightly declined compared to their 2016 levels. Countries reduced their interest rates in light of an improving inflation outlook to enhance demand and growth, while others increased their interest rates in an attempt to curb inflation after devaluing their currencies.

In spite of the strong growth witnessed in most countries in Africa since the early 2000s, poverty reduction has been slow and the number of people living in extreme poverty on the continent has been almost constant since 2002. The slow pace of poverty reduction is driven by high initial inequality and rapid population growth, among other factors. With an average Gini coefficient of 0.44 among its countries, Africa has the second highest inequality in the world. It also has the fastest rate of population growth in the world. The big push for universal education over the past 20 years has helped to ensure that nearly all children attend school and that gender parity is close at the primary education level. Gender gaps in primary education have largely been closed. But considerable gaps remain across subregions in access to secondary and higher education. Low levels of education combine with poor conditions of work and low remuneration to limit women's opportunities to obtain a fair return on their labour. Growth is expected to rebound in 2018, mainly driven by continued prudent macroeconomic management and strong domestic demand, underpinned by increasing public and private investment. However, slow growth recovery in advanced and emerging economies and the tightening of financial markets in developed economies, together with weather-related shocks, remain a regional risk. Recent developments in the global economy demonstrate that the dependence of Africa on commodity exports is not sustainable, hence the call for diversification in African economies and the enhancement of efforts to foster value addition through industrialization and structural transformation of the economies.

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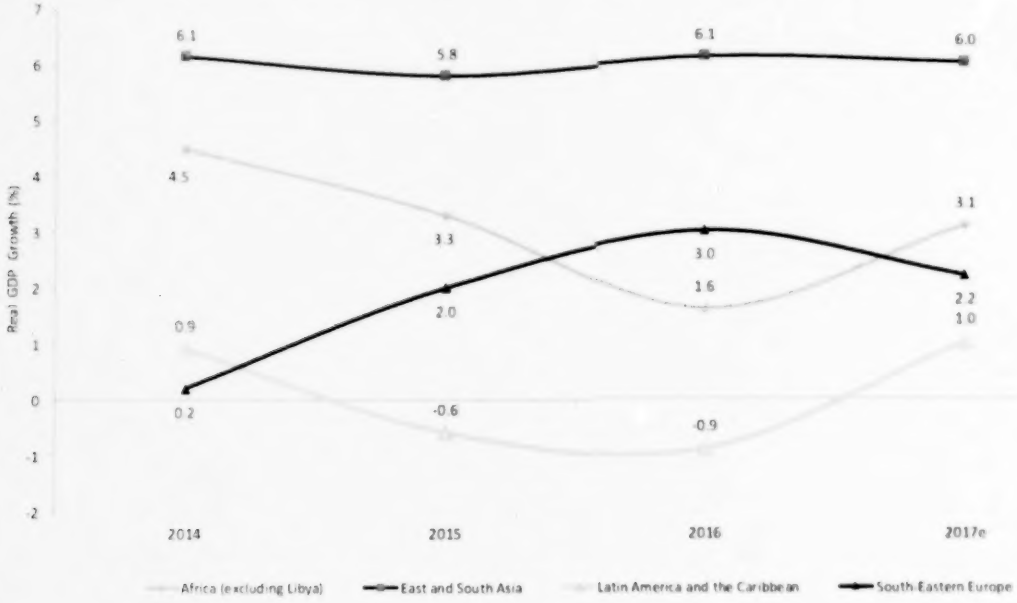
I. Africa's growth rebounds in 2017

1. Africa's economic growth performance modestly recovered in 2017, rising to 3.1 per cent,[1] after experiencing its lowest level (1.7 per cent) in 2016 since the beginning of this century. Africa is the second fastest-growing region after East and South Asia (6 per cent), followed by South-Eastern Europe (2.5 per cent), and the Latin American and Caribbean region (1 per cent) (see figure I).

Figure I
Economic growth in Africa and developing regions, 2014–2017



Source: Based on data from the United Nations Department of Economic and Social Affairs (2017).
Note: "e" refers to estimates.

2. Africa's economy expanded due to the slight increase in commodity prices and improved domestic conditions supported by improved macroeconomic management. Growth in private consumption and increase in investments led the recovery in Africa's growth, despite relatively low commodity prices, adverse weather conditions and fragile global economic conditions, which affected some countries. The recovery in some major economies (such as Angola, Morocco and Nigeria) and the continued robust growth in other economies (such as Côte d'Ivoire, Ethiopia, Ghana, and the United Republic of Tanzania) underpinned the continent's growth. Nevertheless, low growth performance in large economies muted the continent's growth, including in Nigeria (0.9 per cent) and South Africa (0.6 per cent).

3. However, the recent growth rates registered in both 2016 and 2017 are below the 7 per cent Sustainable Development Goals target and could not significantly reduce poverty in the continent where 41 per cent of the population lives below the poverty line.[2] The continent should therefore ramp up efforts to boost growth by

[1] Excluding Libya.
[2] See Kathleen Beegle and others, *Poverty in a Rising Africa* (Washington, D.C., World Bank, 2016).

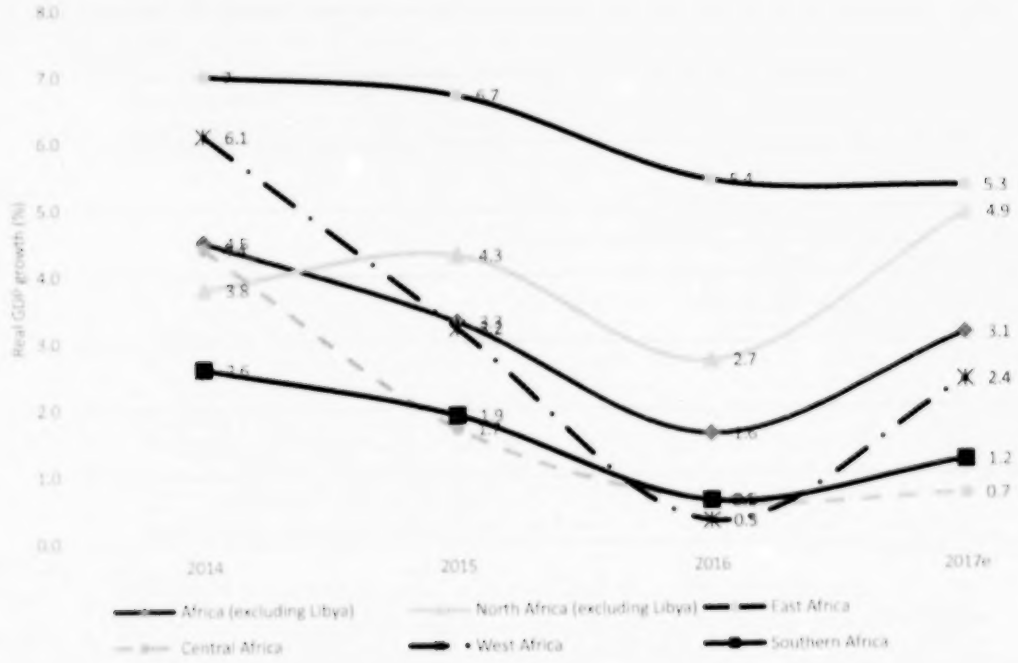
underscoring the importance of measures to promote shared growth, through structural transformation and job creation. In order to enhance Africa's economic performance and move towards the 7 per cent target mentioned previously, domestic demand needs to be strengthened. Government spending on infrastructure needs to be aggressively increased to fill the infrastructure gap in Africa. The rise in public investment should not cause any further deterioration in fiscal balances and African Governments need to continue their efforts to consolidate their fiscal position. Enhancing tax administration, fighting illicit capital outflows, and tapping excess liquidity in the banking sector are potential sources to finance public investment, particularly in infrastructure.

A. Growth recovery across many subregions

4. Eastern Africa continues to be in the lead with an annual growth rate of 5.3 per cent in 2017, followed by North Africa at 4.9 per cent, West Africa at 2.4 per cent, Southern Africa at 1.2 per cent and Central Africa at 0.7 per cent (see figure II). Growth in Eastern Africa is driven by strong private consumption, increase in investments and government expenditure on infrastructure (especially in the energy and transport sectors), in countries such as Ethiopia, Kenya, Uganda and the United Republic of Tanzania. In North Africa, economic growth continues to be driven by agricultural production in Morocco and the Sudan. Egypt embarked on a major economic reform programme, involving fiscal consolidation measures and business environment reforms.

5. Growth in Central Africa is underpinned by growth in Cameroon, which is driven by robust government spending and an increase in external demand. In the Central African Republic, growth is spurred by a modest increase in private and public consumption, while in the Republic of the Congo, growth is driven by modest public investment in infrastructure. Equatorial Guinea and Gabon recovered from last year's deceleration in growth due to oil price decline, while Sao Tome and Principe continues to enjoy healthy growth led by improvements in the agriculture and tourism sectors.

Figure II
Economic growth by subregion, 2014–2017



Source: Based on data from the United Nations Department of Economic and Social Affairs (2017).
Note: "e" refers to estimates.

6. In West Africa, Nigeria grew by 0.9 per cent — as the country launched its Economic Recovery and Growth Plan for 2017 to 2020, with reforms aimed at diversifying the economy — on the back of increasing oil exports. Countries such as Burkina Faso, Côte d'Ivoire, Ghana and Senegal led growth in West Africa, which increased from 0.3 per cent in 2016 to 2.4 per cent in 2017. Growth in those countries was due to a rise in private and public consumption and improved oil exports.

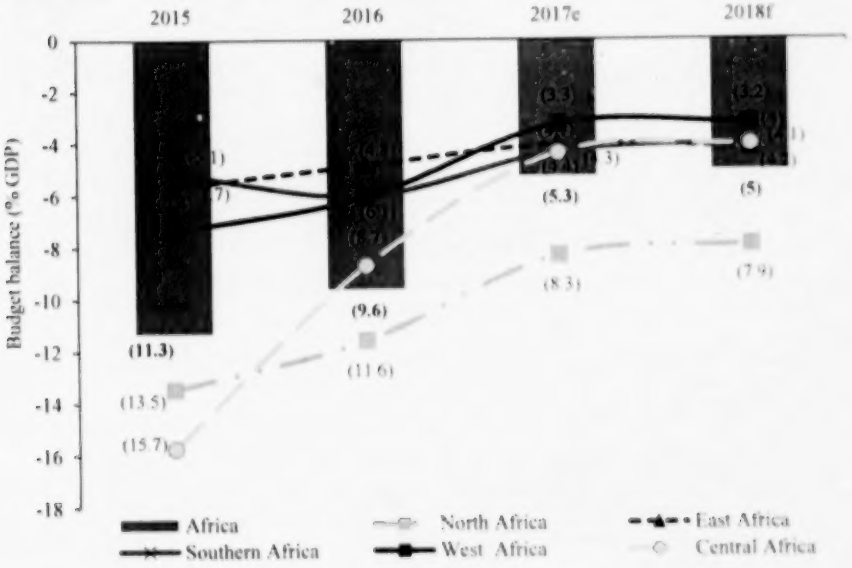
7. Growth in Southern Africa increased from 0.6 per cent in 2016 to 1.2 per cent, reflecting the recovery in the subregion's big economies of Angola (driven by improved private and government consumption) and the weak growth in South Africa. The recovery of agricultural production following the end of a drought has helped reduce inflation in the subregion, complemented by the loosening of the monetary policy in most countries.

B. Africa's fiscal deficit is narrowing albeit high

8. The overall fiscal deficit share in gross domestic product (GDP) declined due to fiscal consolidation through the reduction in fiscal expenditures and raising or introducing new taxes. Fiscal deficits declined by 0.7 percentage points from 5.9 per cent in 2016 to 5.2 per cent in 2017 and are projected to decline further to 4.9 per cent in 2018. While underlying factors behind the fiscal shortage vary across countries, this trend demonstrates continued commitment to sound macroeconomic management practices through fiscal consolidation boosted by the slight recovery in commodity

prices since early 2016. All the subregions and economic groups registered an improvement in their fiscal positions in 2017, a trend projected to continue in 2018 (see figure III). However, in some countries, fiscal deficit widened as a result of increased public expenditure, especially on infrastructure development.

Figure III
Fiscal deficit position in Africa, 2015–2018



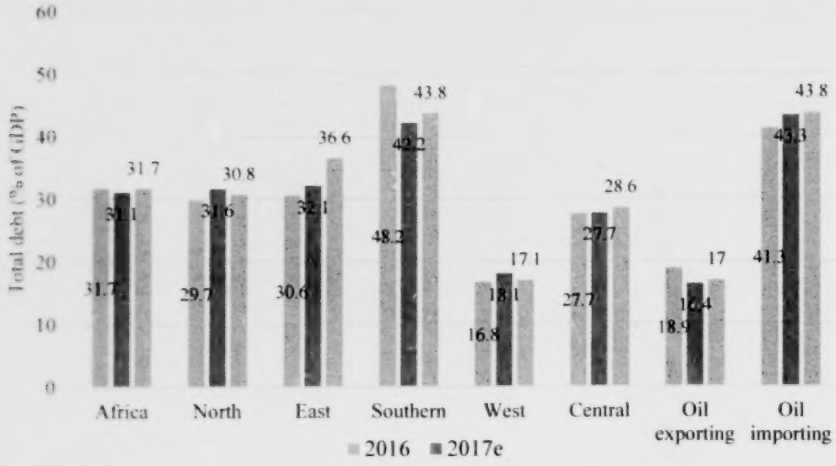
Source: ECA calculations based on 2017 data from the Economist Intelligence Unit database, see www.eiu.com.
Note: "e" refers to estimates; "f" refers to forecasts.

9. It is important for many countries to improve their tax administration practices. Based on a 2017 report of the African Tax Administration Forum, African countries have on average a tax-to-GDP ratio of 19.1 per cent, which is below that of Latin America and the Caribbean (22.8 per cent). While African economies have made significant progress in increasing the tax-to-GDP ratio by an average of 5 per cent since 2000,[3] they continue to face the challenge of a large informal sector and a narrow tax base. Governments need to design and implement coherent and integrated strategies to facilitate the transition from the informal to the formal economy.

10. Relatively high fiscal deficits coupled with exchange rate depreciations have put pressure on rising public debt levels in some countries as Africa's total debt share in gross domestic product hovers around 32 per cent (see figure IV). It is elevated to levels above 40 per cent in Southern Africa and among oil importing countries. Significant non-concessional borrowing for infrastructure development has led to high debt-servicing costs in several countries, such as Botswana and Mozambique.

[3] African Tax Administration Forum, 2017. African Tax Outlook. Pretoria. Available at www.ataftax.org/en/products-services/african-tax-outlook.

Figure IV
Total debt share in gross domestic product in Africa, 2016–2018



Source: ECA calculations based on 2017 data from the Economist Intelligence Unit database, see www.eiu.com.
Note: "e" refers to estimates.

11. This aggregate picture, however, masks the significant debt levels in 13 countries, three of which, all small island developing States, have debt shares above 100 per cent of their GDP (Cabo Verde: 111 per cent; Mauritius: 117.5 per cent; and Seychelles: 165 per cent); four with debt shares between 76 and 100 per cent (Djibouti: 80 per cent; Mauritania: 75.4 per cent; Sao Tome and Principe: 84 per cent; and Tunisia: 79 per cent); and the remaining six with debt shares between 50 and 75 per cent (Gambia: 69 per cent; Ghana: 52 per cent; Liberia: 51 per cent; Namibia: 50 per cent; Senegal: 53 per cent; and Zimbabwe: 69 per cent).[4] The rising public debt levels, currency depreciations and growing recourse to non-concessional borrowing for infrastructure development are fast raising debt-servicing costs, thereby diminishing fiscal space for the affected countries.

C. Varying monetary policy stance among African countries

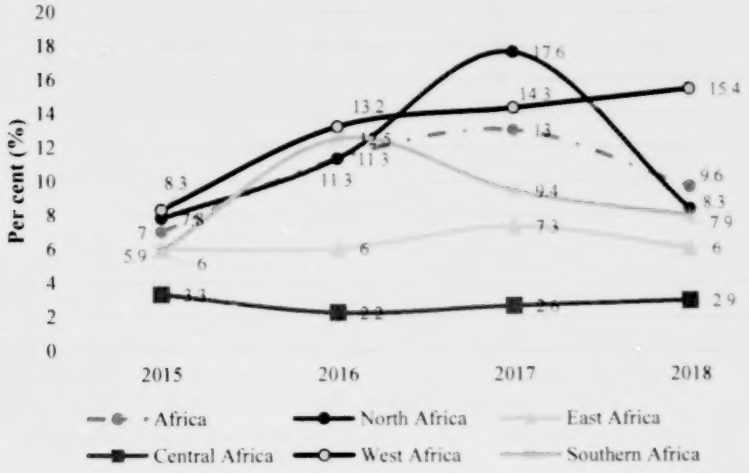
12. Monetary policies varied across African countries in 2017, as interest rates slightly came down compared to their levels in 2016. The decline allowed several countries, including Uganda, the United Republic of Tanzania and Zambia to reduce their interest rates. Countries such as Ghana, Malawi and South Africa reduced their interest rates in light of an improving inflation outlook to enhance demand and growth, while countries such as Algeria, Angola, Kenya, Mauritania and Morocco kept interest rates at the 2016 level. Countries belonging to the Central Bank of West African States have continued to maintain their interest rate at 2.5 per cent since September 2013. However, countries such as Egypt, Ethiopia, Tunisia and the Central African Economic and Monetary Community (CEMAC) countries increased their interest rates in 2017 in an attempt to curb inflation after devaluing their currencies. Monetary policies in Africa are mainly driven by the movements in the balance of

[4] ECA calculations based on 2017 data from the Economist Intelligence Unit database, see www.eiu.com.

payments, which make it difficult for policymakers to use monetary policies to achieve sustainable development.

13. Inflation remains high in Africa, recording 13 per cent in 2017 from 11.3 per cent in 2016, mainly due to the effect of rising oil prices and currency devaluations which have pushed up import costs and exacerbated inflationary pressures, despite being offset by increased agricultural production in some of the countries, especially in Southern Africa (see figure V). Inflation continues to be relatively low in the Central African Economic and Monetary Community and the West African Economic and Monetary Union (WAEMU) countries, reflecting the stable peg to the euro.

Figure V
Inflation by subregion, 2015–2018



Source: Based on data from the United Nations Department of Economic and Social Affairs (2017), and the Economist Intelligence Unit (2017).
Note: 2017 refers to estimates; 2018 refers to forecasts.

14. Despite the currency devaluations leading to high inflation rates in several large African economies, including Angola, Egypt and Nigeria, the high exchange rate volatility witnessed by a large number of African currencies in 2016 weakened and currencies became more stable in 2017 and the countries' exports increased. However, the local currencies remain vulnerable to increased global risks such as low global commodity prices, slow growth recovery in emerging and developed countries and the tightening of global financial markets.

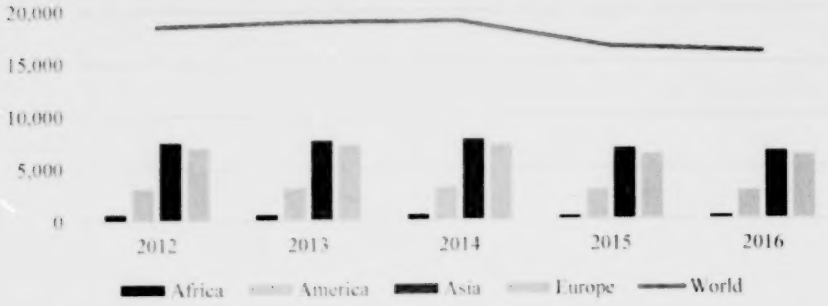
II. Improvement in Africa's trade performance

15. Africa's merchandise exports grew by 8.9 per cent in 2017, twice the global trade growth of 4.3 per cent, due to the recovery in the global economy, especially that of Africa's trading partners and the overall recovery in global trade activity (see figure VI).[5] Global merchandise exports picked up following the global financial crisis, but since 2014, that trend has reversed, with Africa experiencing significant declines compared to other regions. Africa's merchandise exports declined by

[5] *World Economic Situation and Prospects* (United Nations Department of Economic and Social Affairs, New York, 2017).

29.6 per cent and 11.5 per cent in 2015 and 2016, respectively, compared to 10.9 per cent and 3.7 per cent in America, 12 per cent and 4.5 per cent in Asia, and 14 and 1.3 per cent in Europe. This slowdown has largely been driven by the 2014–2015 collapse in global commodity prices, particularly for oil. Africa's share in global exports continued to fall, from 2.9 per cent in 2014 to 2.2 per cent in 2016.

Figure VI
Merchandise exports by region (in billions of United States dollars), 2012–2016



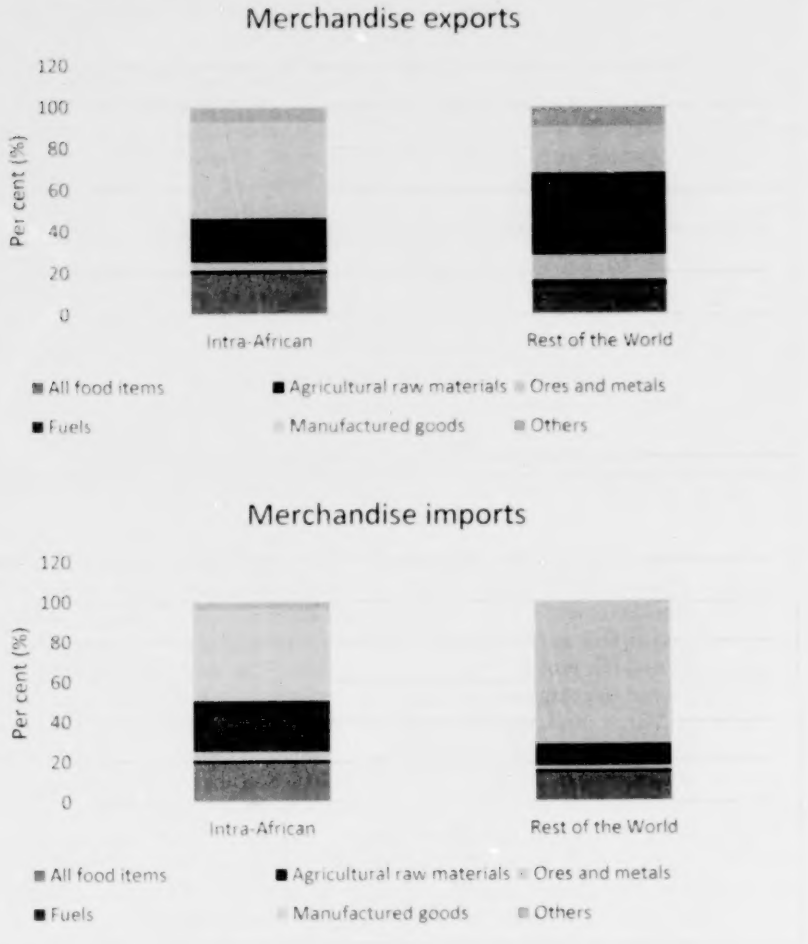
Source: ECA calculations based on UNCTAD 2017.[6]

16. Imports have also fallen (though not enough to reduce the widening trade deficit), reflecting the continued decline in commodity-related revenues, depreciated domestic currencies and subdued investment activity. This led to a decline in Africa's merchandise imports in recent years, from $642.2 billion in 2014 to $500.8 billion in 2016. Exports, however, contracted significantly more than imports over the period, which contributed to the region's widening trade deficit. Africa's trade balance moved from a surplus of $24.0 billion in 2012, to a deficit of $86.9 billion in 2014 and $154.9 billion in 2016.

17. However, the share of manufactured goods in Africa's total exports has remained relatively stable over time, from 24.3 per cent in 1996, to 26.7 per cent in 2016. Figure VII shows that intra-African exports are relatively more diversified and industrialized than exports to the rest of the world, and therefore offer a great opportunity for industrial upgrading. This indicates that there is need for further diversification and structural transformation to better support the continent's industrialization through trade.

[6] UNCTADStat database. Available at http://unctadstat.unctad.org/EN/.

Figure VII
Africa's merchandise exports and imports, product shares (percentage), 2016



Source: ECA calculations based on UNCTAD, 2017.

18. Africa's export of services also fell from $105.8 billion in 2014, to $101.4 billion in 2015 and further to $95.7 billion in 2016. Africa's export of services continues to be dominated by travel, transport and other business services, which accounted for 35.3 per cent, 26.4 per cent and 14.2 per cent, respectively.

A. The African Continental Free Trade Area makes significant headway

19. The 25th Ordinary Session of the African Union Assembly of Heads of State and Government took place on 15 June 2015 in Johannesburg, South Africa. That session marked the beginning of the negotiation process on the agreement establishing the African Continental Free Trade Area It was also a significant step towards achieving regional integration and the development agendas. It was the intention that, once established, an agreement on the African Continental Free Trade Area would go

beyond a traditional trade agreement of tariff reductions to include services, competition and intellectual property. Phase one of the negotiations was to focus on goods and services, the second phase on competition and intellectual property rights. At the time of writing the present report, major progress had been made towards concluding the first phase of the negotiations.

20. The African Union Commission, with the technical assistance of ECA, developed a draft template agreement drawing on existing legal instruments and approaches across Africa. This agreement has been refined and amended by a series of negotiating forums such as the Sixth Meeting of the Continental Free Trade Area Negotiating Forum (Niamey, 5–10 June 2017), followed by the third meeting of African Ministers of Trade (Niamey, 15 and 16 June 2017), which adopted African Continental Free Trade Area modalities for goods and services. These modalities are to form a framework that will determine the shape, structure and ambition of the Free Trade Area and provide the backbone for final market access and the schedule of commitments for trade in services. The current draft agreement includes trade remedy provisions, special and differential treatment for least developed countries, infant industry provisions, and a commitment to address non-tariff barriers and cooperation on technical barriers to trade and on sanitary and phytosanitary measures. The third meeting of African Ministers of Trade directed the African Union Commission, working with ECA and the United Nations Conference on Trade and Development, to undertake studies to determine the criteria for designating sensitive products and exclusion lists.

21. The Seventh and Eighth Negotiating Forums developed outcomes that were deliberated on during the fourth meeting of African Ministers of Trade in December 2017. That meeting approved the framework agreement of the African Continental Free Trade Area, which established the governance structures and other institutional arrangements, and the protocol on trade in services. The meeting tasked the Sixth Negotiating Forum to complete the remaining work on trade in goods and on dispute settlement by March 2018. The Ninth Negotiating Forum (Addis Ababa, February 2018) and the Tenth Negotiating Forum (Kigali, March 2018) concluded the protocol on dispute settlement and finalized unresolved issues in the Protocols on Trade in Goods and Services. At the 10th Extraordinary African Union Summit (Kigali, 21 March 2018), 50 African countries signed either the African Continental Free Trade Area agreement or the Kigali Declaration, underscoring their commitment to sign the agreement once the required review processes at the national level had taken place. Of those 50 African countries, 44 have signed the agreement.

B. Vast resources required to finance Africa's development

22. To finance the implementation of the 2030 Agenda and Agenda 2063, African countries will require the investment of immense financial resources. For Africa to meet Goal 1 of the Sustainable Development Goals alone, that is, ending the extreme poverty in the continent by 2030, it is estimated that the region requires an investment-to-GDP ratio and a financing gap-to-GDP ratio of 87.5 and 65.6 per cent per annum, respectively, between 2015 and 2030.[7] Estimates by various sources also indicate that the required investment to finance the Sustainable Development Goals in Africa could amount to between $600 billion and $1.2 trillion per year, with

[7] Abbi Kedir and others, Growth and development finance required for achieving Sustainable Development Goals (SDGs) in Africa, *African Development Review*, vol. 29, No. S1, 2017, pp. 15–26.

infrastructure alone costing $93 billion.[8] The decline in recent years in the revenues of the region from exports of commodities further widens the financing gap.[9]

23. Tax revenue remains the main source of domestic finance in Africa. However, it has been on a declining trend in recent years, particularly since 2013, as it fell by $125 billion over a three-year period, from $561.5 billion in 2012 to $436.8 billion in 2015. This was mainly due to falling resource revenues as a result of the decline in commodity prices, particularly oil.[10] Despite the recent disappointing trend, domestic revenue mobilization through taxation has gained increasing prominence in the policy debate of African countries, since higher reliance on domestic revenues would allow for a higher level of stability, predictability and control in the budget processes of the countries. Consequently, African Governments and pan-African institutions have been engaged in a number of tax reforms over the last decade.[11]

24. Although savings and the development of capital markets remain weak, financial deepening, and the expansion of pension and sovereign wealth funds offer paths to increase domestic private investment in the region.[12] Curtailing illicit financial flows from the region could also provide hidden resources that may contribute to financing the development agenda of the continent. The innovative sources of finance offer the continent a range of options and opportunities, which could reduce considerably Africa's dependence on external resources and provide the requisite resources for the implementation of regional and global development agendas.

III. Positive medium-term growth prospects, risks and uncertainties

25. Growth is expected to reach 3.5 per cent in 2018 and 3.7 per cent in 2019, driven by continued prudent macroeconomic management and a strong domestic demand, underpinned by increasing public and private investment, especially in infrastructure in most countries. However, slow growth recovery in advanced and emerging economies and the tightening of financial markets in developed economies may negatively affect export demand and curtail foreign direct investment inflows to Africa. Despite public debt levels being sustainable, they remain high, calling for the need to invest funds borrowed into productive sectors to generate returns that would allow for timely repayment and enhance the growth prospects of the countries. Some countries may face debt repayment problems as they are caught in an environment of slow growth, widened fiscal deficits, weaker currencies, and lower export revenues.

26. Weather-related shocks remain a regional risk, in particular in parts of East Africa where droughts have been continuous in recent years. This would also affect power generation that, in turn, may affect productivity levels in some countries. Security or political uncertainties ahead of key elections pose risks to growth in some countries, creating uncertainties or delays in investment.

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[8] UNCTAD, *Economic Development in Africa Report 2016: Debt Dynamics and Development Finance in Africa* (Geneva, 2016).

[9] Amadou Sy, *Mobilizing Financial Resources: Strategies to manage the commodity slump and attract investment*, Africa Growth Initiative (Global Economy and Development, Brookings Institution, Washington, D.C.).

[10] AfDB, *African Economic Outlook 2017 Entrepreneurship and Industrialization* (Abidjan, 2017).

[11] *Tax Revenue Mobilization in Developing Countries: Issues and Challenges*, Policy Department DG External Policies (European Union, 2014).

[12] Innovative approaches to financing the SDGs in Africa (forthcoming ECA publication).

IV. Recent social developments

A. Slow pace of declining poverty rates amid high levels of inequality

27. As a consequence of Africa's good economic performance since 2000, the poverty headcount ratio declined from 55.6 per cent in 2002 to 41 per cent in 2013, though at a relatively slow pace of poverty reduction.[13] Factors contributing to that situation include high poverty gaps, inequality and lack of decent job creation. The poverty gap ratio in Africa stood at 15.2 per cent in 2013, which is almost double the global average of 8.8 per cent, further slowing down the impacts of poverty reduction programmes.[14] However, it is important to note that, at a disaggregated level, poverty in Africa remains a rural phenomenon, more than an urban one, yet the pace of reduction in poverty in rural areas is faster than in urban areas. This could be due to the positive role of non-farm activities in rural towns and a positive employment effect of the non-employed poor.[15]

28. Africa is the region with the second highest level of income inequality (expressed as Gini coefficient) at 0.44, harbouring seven of the ten most unequal countries globally. This stems the poverty reducing effect of economic growth, since a highly unequal distribution reflects a polarized economy, a narrow production base and inadequate linkages between the production base and the rest of the economy. The high levels of income inequality in Africa, south of the Sahara, are partly driven by structural features such as the stage of development, the low share of the working age population to total population and gender inequality.[16]

29. Despite near gender parity being achieved in primary school enrolment, gender discrimination is still evident in secondary and tertiary education. Gender inequality in social services translates into lower opportunities for the well-being of women in particular, and society in general. Indeed, African Governments while being aware of the factors impacting the status of women, do not translate gender status into budget allocations and fall short of the targets set by the African Union for spending on the social sector.[17]

30. As indicated above, one of the factors contributing to the slow pace of poverty reduction in African economies is the lack of decent jobs. The dependence on and exportation of primary commodities by African economies have intensified social inequalities. The slow pace of structural transformation, for example, the capital intensity of mining, has led to less employment creation and also constrained poverty reduction efforts, reaffirming the unequal distribution of income. Indeed, the share of people in vulnerable employment is still unacceptably high and heavily skewed towards young people and women.[18] Poverty levels of young working people have been consistently higher than the adult working population, making them much more likely to migrate as they show discontent or seek alternative means of survival.

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[13] United Nations, *Sustainable Development Goal Report* (New York, 2017).

[14] ECA, *The Sustainable Development Report: tracking progress on Agenda 2063 and the SDGs* (Addis Ababa, 2017).

[15] Peter Lanjouw and Rinku Murgai (2009), "Poverty decline, agricultural wages, and nonfarm employment in rural India: 1983–2004", *Agricultural Economics*, vol. 40, No. 2, pp. 243–263.

[16] D. Hakura and others, Inequality, gender gaps and economic growth: comparative evidence for Sub-Saharan Africa, IMF Working Paper Series, no. WP/16/111 (IMF, Washington, D.C., 2016).

[17] UNDP, *Africa Human Development Report 2016: Accelerating Gender Equality and Women's Empowerment in Africa* (New York, 2016).

[18] ILO, *World Employment Social Outlook: Trends* (Geneva, 2016).

B. Progress despite inadequate social outcomes

31. There has been significant progress in both education and health, yet access inequities for women, rural dwellers and low-income groups remain an important feature of the inequalities in opportunities across the continent. Primary school enrolment, for example, increased significantly from 62 million in 1990 to 149 million in 2012.[19] In terms of years of schooling, however, women received on average 4.3 years while men averaged 5.7 years.[20]

32. In health, there have been significant gains in child and maternal mortality, with maternal mortality rates dropping by 35 per cent in 2000–2015 and adolescent birth rates declining by 21 per cent over the same period.[21] However, average improvements mask inequities of social outcomes with, for example, total fertility rates of the poorest quintile showing 6.5 children per woman, while for the richest quintile it was 3.6 children per woman.[22] The combination of slow poverty reduction, consistent inequalities and vulnerable employment manifests as inadequate social outcomes in Africa.

C. Relatively high private and public expenditures but with minimal impact

33. In Africa, the size of public expenditure in relation to gross domestic product is comparable to the Organization for Economic Cooperation and Development (OECD) public expenditure levels, but with much less effect on education and health outcomes. The data available reveal that public expenditure increased between 2000 and 2012 across all subregions in Africa, despite masking variations across the subregions, with East, North and Southern Africa posting 27, 33 and 36 per cent, respectively, while in West Africa the average is just above 20 per cent (figure VIII). Public spending in OECD countries varied between less than 30 per cent of gross domestic product in the Republic of Ireland to 56 per cent in France and Finland in 2012.[23] In East Asia, public expenditure is much less, at 21.6 per cent of GDP.[24]

34. The largest proportion of private funding for education is generated from individual households in Africa. Based on studies of 16 countries (where data were available), households contribute about 25 per cent of the total national education expenditure.[25]

35. In a sample of 46 African countries, based on data availability, over the period 2000–2009, the number of countries with private spending as a percentage of total health expenditure of 50 per cent and above, decreased from 29 to 23 per cent, while over 70 per cent of private expenditure on health came from household out-of-pocket payments in 32 countries.[26]

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[19] ECA, *Assessing Progress towards the MDGS in Africa* (Addis Ababa, 2015).

[20] AfDB, *African Development Report 2015. Growth, Poverty and Inequality Nexus: Overcoming barriers to sustainable development* (Abidjan, Côte d'Ivoire, 2015).

[21] ECA, *Agenda 2063/SDGs Progress Report 2017. Assessing Africa's Domestication and Implementation of Agenda 2063 and the SDGs* (Addis Ababa, 2017).

[22] ECA, African women's report: securing Women's rights to social protection in Africa, Working paper (Addis Ababa, 2017).

[23] OECD, Public expenditure database (Paris, 2016).

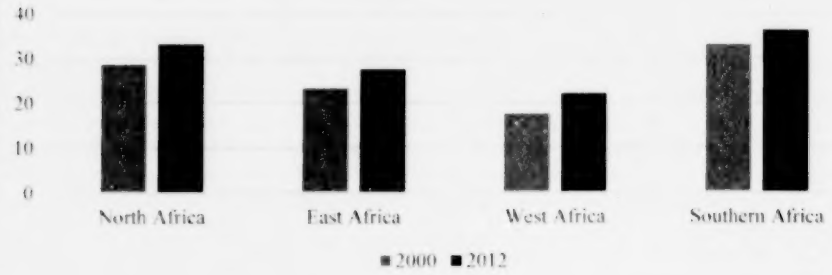
[24] World Bank and others *UHC in Africa: A Framework for Action*, (Washington, D.C., 2016).

[25] UNESCO, *Financing Education in Sub-Saharan Africa Meeting the Challenges of Expansion, Equity and Quality* (Paris, 2011).

[26] L. G. Sambo, J. M. Kirigia and J. N. Orem, "Health financing in the African Region: 2000–2009 data analysis", *Int. Arch. Med.*, vol. 6, No. 1, p. 10.

36. Notwithstanding the above data, constraints of private spending and the predominant role of the public sector in the provision of education and health services, private spending remains crucial for reviewing Africa's performance in relation to the spending targets relevant to the Millennium Development Goals.

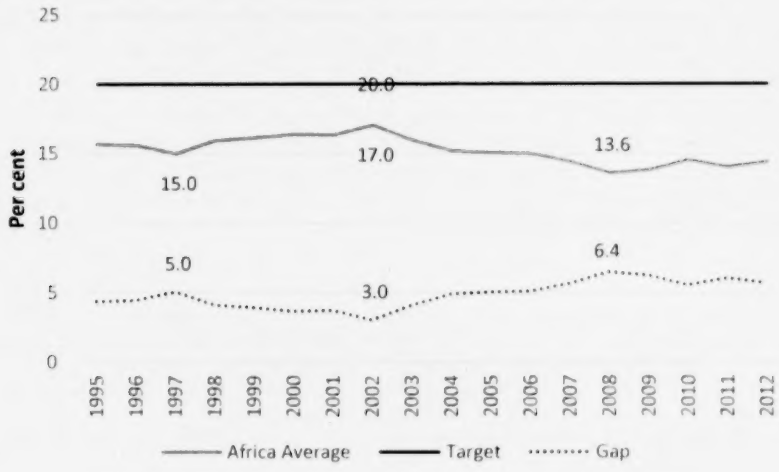
Figure VIII
Public expenditure to GDP ratio in Africa (2000–2012)



Source: International Food Policy Research Institute database (2016).[27]

37. On average, the expenditure on education of African countries has remained close to, achieved or surpassed the 20 per cent target set, over the period 1995–2012, despite variations across countries (figure IX). Countries such as Botswana, Kenya, Namibia, Swaziland and Tunisia surpassed the target for the period 2010–2012. However, it is important to note that some countries were able to meet the stipulated target before it was set, raising questions as to whether the progress achieved in outcomes in education require an adherence to the spending targets currently set.

Figure IX
Expenditure of African countries on education as a share of government expenditure, 1995–2012



Source: Authors computations based on data from the World Bank (2017).

[27] International Food Policy Research Institute database (Washington, D.C., 2016).

38. In terms of health, the African Union set a health spending target of 15 per cent of government expenditure in 2001,[28] which was concomitant with the introduction of the Millennium Development Goals in 2000. This was also at a time when the HIV/AIDs pandemic was taking centre stage in health spending and outcomes on the continent.[29] Figure X shows that, although the gap in the spending target for health is much larger than that of education, on average, there seems to be an increase in health spending in Africa. Indeed, according to World Bank data, between 2001 and 2006, average health spending increased from 9.1 per cent of total government expenditure to 10.7 per cent. Between 2002 and 2004, countries such as Malawi, Rwanda, Sierra Leone and the United Republic of Tanzania increased their health spending by approximately 3 to 4 percentage points of government expenditure.[30] Consequently, the increase in health spending has contributed to improved outcomes in maternal and under five mortality rates in Malawi, Rwanda, Sierra Leone and the United Republic of Tanzania by approximately 1–2 per cent over the period.[31]

39. Possibly due to the cost-sharing scheme with households in most African countries, the increase in health spending has not resulted in commensurate health outcomes. Based on available data, between 2000 and 2009, there was a drop in only six countries (out of 46), where household spending on health was more than 50 per cent of total health spending. Indeed, the out-of-pocket payments have increased in nearly all African countries from $15 per capita in 1995 to $38 in 2014.[32] In most African countries, expenditure on health is jeopardizing household welfare by putting pressure on the disposable income within households and lowering material living standards.[33,34] The widespread private financing of health among African households "crowds out" public health allocation, in addition to which there are no socioeconomic incentives to reach the health targets set.

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[28] African Union, Abuja Declaration on HIV/Aids, Tuberculosis and Other Infectious Diseases (Addis Ababa, 2002). Available at http://www.un.org/ga/aids/pdf/abuja_declaration.pdf.

[29] ECA, *Scoring African Leadership for Better Health* (Addis Ababa, 2004).

[30] World Bank, Japan International Cooperation Agency, Global Fund, AfDB and WHO, *UHC in Africa: A Framework for Action* (World Bank, Washington, D.C., 2016).

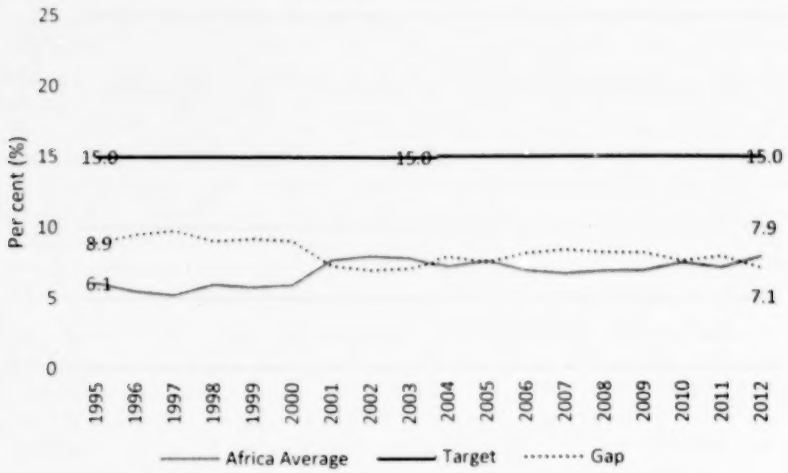
[31] United Nations, Addis Ababa Action Agenda of the Third International Conference on Financing for Development (New York, 2015).

[32] World Bank and others, *UHC in Africa: A Framework for Action* (Washington, D.C., 2016).

[33] L. Sene and M. Cisse, Catastrophic out-of-pocket payments for health and poverty nexus: evidence from Senegal, *Int. J. Health Economics and Management*, vol. 15, No. 3, pp. 307–328.

[34] O. Akinkugbe and others, Health financing and catastrophic payments for health care: evidence from household-level survey data in Botswana and Lesotho, *African Development Review*, vol. 24, No. 4, pp. 358–370.

Figure X
Africa health expenditure as a share of government expenditure 1995–2012



Source: ECA calculations based on data from the World Bank (2016).

40. From observation, universal health coverage has not gained the same level of political commitment as education, although it has featured prominently, starting with the 1975 Alma Ata Universal Primary Health Care for All and the 2008 African Union Framework on Social Protection. Basic health care for all was identified as one of the areas that needs public intervention. The wide inequities in access to health care that exist between different socioeconomic groups, and between rural-urban areas are mostly in accessing and utilizing health services. The only health indicator showing equality in terms of income and rural-urban differences is immunization, probably due to its universal coverage and close monitoring by national governments and donor agencies.[35]

V. Conclusions and policy implications

41. After a sharp drop to 1.7 per cent in 2016, economic growth rose to 3 per cent in 2017, due to a slight increase in commodity prices, increased investment, especially in infrastructure, and strong growth in domestic demand. Oil-importing countries led the continent's growth among economic groupings, reflecting the move towards more diversification and an increase in public investment, especially in infrastructure. Improved macroeconomic management through fiscal consolidation and prudent monetary strategies also guided government expenditures and maintained economic stability in most countries.

42. Recent developments in the global economy demonstrate that the dependence of Africa on commodity exports is not sustainable, hence the call for diversification in African economies and the enhancement in efforts to foster value addition through industrialization and structural transformation of the economies. In order to achieve the Sustainable Development Goals, Africa's domestic demand needs to be further strengthened. Spending on infrastructure must be accelerated and increased through enhancing tax administration, fighting illicit capital outflows, tapping excess liquidity

[35] ECA, *Mainstreaming health equity in development planning* (Addis Ababa, 2009).

in the banking sector, and utilizing remittances and other sources of finance for development. Those processes would help in mitigating fiscal deficits.

43. The domestication of the Sustainable Development Goals in national plans and visions needs to be mainstreamed in national expenditure frameworks and budgets. The new targets and indicators should inform the national composition of specific social spending to ensure that adequate resources are allocated so that all intended objectives are met. Political commitment and leadership will be crucial in rallying resources towards a specific objective. In order to achieve the intended objectives in essential health for all, the decrease in cost sharing and out-of-pocket payments is a necessary policy intervention to avoid reducing disposable incomes and lowering living standards.

44. A positive growth outlook will depend on the countries' ability to mitigate several internal and external risks and uncertainties. Slow growth recovery in the advanced and emerging economies and the tightening of financial markets, high fiscal deficits and weather-related shocks remain a threat to the continent's medium-term growth prospects. In order to maintain and enhance the current growth prospects, African countries need to focus on medium and long-term strategies to attract private investment, and build infrastructure to boost productivity and competitiveness of their economies. Notwithstanding the challenges mentioned above, medium-term prospects for the continent remain positive.